Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) Regarding Year 20 (2013-2014) of Its Gas Cost Incentive Mechanism.	Application 14-06-009 (Filed June 13, 2014)

DECISION REGARDING YEAR 20 (2013-2014) OF SOUTHERN CALIFORNIA GAS COMPANY'S GAS COST INCENTIVE MECHANISM

Summary

This decision approves a shareholder reward of $13,710,059 for Southern California Gas Company's (SoCalGas) Gas Cost Incentive Mechanism Year 20 (2013-2014) performance. The Commission's Office of Ratepayer Advocates confirmed total savings in gas costs of $70,397,961 and recommends that SoCalGas' request be granted.

This proceeding is closed.

1. Background

The Gas Cost Incentive Mechanism (GCIM) is a ratemaking incentive mechanism program originally approved in Decision (D.) 94-03-076.[1] The GCIM was designed to give utilities market-based incentives to acquire gas at the lowest possible cost and take on some associated risks. The GCIM measures utilities' gas purchasing performance against a benchmark cost of gas intended to emulate

[1] D.97-06-061, D.98-12-057, and D.02-06-023 modified and/or extended the GCIM.

actual market conditions on a monthly basis. The benchmark is comprised of a volume-weighted average of published indices for the locations gas is purchased for core customers. For the most part, the benchmark has been based on southwest gas price indices published in the Natural Gas Intelligence, Inside Federal Energy Regulatory Commission Gas Market Report, and Natural Gas Week publications.

In order to achieve the GCIM objectives, the Commission allows Southern California Gas Company (SoCalGas) to use a number of cost-saving gas procurement methods such as the physical sale of gas to third parties and hub transaction activities. Up until GCIM Year 11, financial derivatives were completely included within the GCIM to reduce and effectively manage the cost of gas for cores ratepayers. In GCIM Years 12 through 17, SoCalGas performed its winter hedging outside of its GCIM, as authorized in D.05-10-043, and subsequent decisions.[2]

The benchmark is used to determine whether actual gas purchase costs are within a tolerance band with an upper limit set at two percentage points above the benchmark commodity costs, and a lower limit set at one percentage point below the benchmark commodity costs. Pursuant to D.02-06-023, when actual costs fall within the tolerance band, any associated benefits or losses accrue 100% to ratepayers.[3] However, when actual costs fall outside the tolerance band

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[2] D.05-10-043 approved SoCalGas' and San Diego Gas & Electric Company's (SDG&E) petition to allocate all costs and benefits of winter hedging transactions directly to their core gas customers for GCIM Year 12. Subsequent decisions (D.06-08-027, D.07-06-027, D.08-09-005 and D.09-08-008) approved the continued exclusion of gains and losses from winter hedging transactions for Year GCIM Years 13 through 16 respectively.

[3] D.02-06-023 at 4.

the benefits or losses are shared in different proportions between the shareholders and the ratepayers, depending on whether the actual costs are above the upper limit or below the lower limit of the tolerance band.

If actual gas procurement costs exceed the upper 2% tolerance limit, the excess costs are shared 50/50 between shareholders and ratepayers. If actual costs fall between the lower 1% tolerance limit and five percentage points below the benchmark commodity costs, then savings are shared as a 25% reward for shareholders and a 75% savings for ratepayers. If actual costs are less than the benchmark commodity costs by more than five percentage points, savings are shared as a 10% reward for shareholders and a 90% savings for ratepayers. SoCalGas' total shareholder reward is capped at 1.5% of commodity benchmark costs.

D.10-01-023 adopted a regulatory treatment that incorporated the utilities' hedging plans with the existing gas procurement incentive mechanism. For SoCalGas, a ratio of 25% of all winter hedging net gains and losses attributable to that winter hedging program shall be included within the GCIM. The remaining 75% of winter hedging gains and losses attributable to the winter hedging program shall be directly allocated to core customers.

On June 13, 2014, SoCalGas submitted its 20th annual application under the GCIM. As part of its application, SoCalGas reported on the results of its GCIM Year 20 for the 12 months ending March 31, 2014, and requested authority to recover a shareholder incentive reward in the amount of $13.7 million based on cost savings of $70.4 million below its Year 20 benchmark.

On July 10, 2014, the Commission's Office of Ratepayer Advocates (ORA) filed a response to SoCalGas' application. ORA stated that it would conduct an audit of SoCalGas' GCIM Year 20 performance consistent with D.02-06-023.

On January 16, 2015, ORA filed its Monitoring and Evaluation Report of Southern California Gas Company's Gas Cost Incentive Mechanism (Monitoring and Evaluation Report) for GCIM Year 20.

2. GCIM Year 20 Results

SoCalGas' Annual Report for GCIM Year 20, which was attached to SoCalGas' application, states that:

> In GCIM Year 20, market volatility was somewhat muted during the injection season. However, an extremely cold winter across most of the U.S. resulted in several weather-related price spikes which influenced prices in several supply basins serving California. Under these market conditions, SoCalGas' and SDG&E's core customers continued to receive reliable natural gas supplies at below-market cost. These results were achieved with no curtailments of core service and in compliance with all requirements and guidelines established by the California Public Utilities Commission.

SoCalGas notes that ratepayers have realized the benefit of gas purchases below the GCIM benchmark in 19 of the past 20 years (Application (A.) 14-06-009, Attachment A at 1). SoCalGas reports that in GCIM Year 20, it acquired gas at a total savings of about $70.4 million below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, of this total savings, approximately $56.7 million is the ratepayers' share and $13.7 million is the shareholders' share (A.14-06-009, Attachment A, Table 1).

Pursuant to D.10-02-023, GCIM Year 20 includes 25% gains and losses and transaction costs from SoCalGas' winter hedging activities in total actual costs. Total net costs from Year 20 winter hedging activities generated a gain of $1.58 million, of which $0.4 million was included in GCIM (A.14-06-009, Attachment A at 5).

ORA's Monitoring and Evaluation Report states it conducted an audit and evaluation of SoCalGas' GCIM Year 20 results. This audit included a review of

SoCalGas' recorded Purchase Gas Account costs, an analysis and verification of the GCIM calculations, and an evaluation of the manner in which the program operated during the period.

ORA's evaluation verifies that Year 20 recorded gas costs for SoCalGas were below the benchmark, resulting in savings for ratepayers. ORA's evaluation indicated that SoCalGas' GCIM performance as of March 31, 2014 resulted in total savings in gas costs of $70,397,961. The savings amount is based on ORA's calculation of the difference between the actual costs of gas of $1,666,818,834 and the GCIM benchmark market index of $1,737,216,795. These savings are shared between ratepayers and SoCalGas shareholders.

ORA's evaluation confirms that SoCalGas' recorded costs were below the lower tolerance band, which ORA calculates as resulting in a ratepayer benefit of $56,687,902 and a reward of $13,710,059 to SoCalGas shareholders (ORA Monitoring and Evaluation Report at 8). Therefore, ORA recommends that SoCalGas be authorized to recover its requested shareholder reward of $13,710,059.

After reviewing SoCalGas' application and ORA's Monitoring and Evaluation Report for GCIM Year 20, we find that SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 20. Therefore, in accordance with the GCIM modifications adopted in D.02-06-023, we will award SoCalGas a shareholder reward of $13,710,059 for GCIM year 20. SoCalGas should be permitted to adjust the Purchased Gas Account to reflect this shareholder reward.

3. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

4. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3338, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. No protests have been received. Given this status, a public hearing is not necessary and the preliminary determination made in Res. ALJ 176-3338 is changed to indicate that hearings were not necessary.

5. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Karin Hieta is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The GCIM was designed to give utilities market-based incentives to acquire gas at the lowest possible cost and take on some associated risks.
2. The GCIM program measures utilities' gas purchasing performance against a benchmark cost of gas intended to emulate actual market conditions on a monthly basis.
3. The benchmark is used to determine whether actual gas purchase costs are within a tolerance band with an upper limit set at two percentage points above the benchmark commodity costs, and a lower limit set at one percentage point below the benchmark commodity costs.
4. Pursuant to D.02-06-023, when actual costs fall within the tolerance band, any associated benefits or losses accrue 100% to ratepayers.
5. If actual gas procurement costs exceed the upper 2% tolerance limit, the excess costs are shared 50/50 between shareholders and ratepayers.

6. If actual costs fall between the lower 1% tolerance limit and five percentage points below the benchmark commodity costs, then savings are shared as a 25% reward for shareholders and a 75% savings for ratepayers.

7. If actual costs are less than the benchmark commodity costs by more than five percentage points, savings are shared as a 10% reward for shareholders and a 90% savings for ratepayers.

8. SoCalGas' total shareholder reward is capped at 1.5% of commodity benchmark costs.

9. On June 13, 2014, SoCalGas submitted its 20th annual application under the GCIM.

10. SoCalGas reported on the results of its GCIM Year 20 for the 12 months ending March 31, 2014, and requested authority to recover a shareholder incentive reward in the amount of $13.7 million based on cost savings of $70.4 million below its Year 20 benchmark.

11. On January 16, 2015, ORA filed its Monitoring and Evaluation Report for GCIM Year 20, in which it conducted an audit and evaluation of SoCalGas' GCIM Year 20 results.

12. ORA's evaluation verifies that Year 20 recorded gas costs for SoCalGas were below the benchmark, resulting in savings for ratepayers.

13. ORA's evaluation indicated that SoCalGas' GCIM performance as of March 31, 2014 resulted in total savings in gas costs of $70,397,961.

14. ORA's evaluation confirms that SoCalGas' recorded costs were below the lower tolerance band, which ORA calculates as resulting in a ratepayer benefit of $56,687,902 and a reward of $13,710,059 to SoCalGas shareholders.

Conclusions of Law

1. No hearing is necessary.
2. The preliminary determination made in Res. ALJ 176-3338 should be changed.
3. SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 20.
4. In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder reward of $13,710,059 for GCIM Year 20.
5. SoCalGas should be permitted to adjust the Purchased Gas Account to reflect the shareholder reward of $13,710,059.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company is authorized to adjust the Purchased Gas Account to recognize a shareholder reward of $13,710,059 under Year 20 of its Gas Cost Incentive Mechanism.
2. The hearing determination is changed to no hearings necessary.
3. Application 14-06-009 is closed.

This order is effective today.

Dated ______________________________, at San Francisco, California.